

## Credit Opinion

30 April 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Tai'an Taishan Holding Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Tai'an Taishan Holding Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Tai'an Taishan Holding Co., Ltd. ("TSHC" or the "Company") reflects the Tai'an Municipal Government's (1) very strong capacity to provide support; and (2) high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength but moderate fiscal metrics. Tai'an Hi-tech Industrial Development Zone ("Tai'an HIDZ") is a national-level Hi-tech Industrial Development Zone and plays an important role in industrial development and the transformation of growth drivers of Tai'an City.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) important role in local infrastructure construction and resettlement housing development in the Tai'an HIDZ; and (2) good track record of receiving support from the local government and its parent company.

However, the rating is constrained by the Company's (1) high exposure to commercial activities especially in property development; (2) relatively large short-term debt burden; (3) funding channels which are highly concentrated on regional banks with limited liquidity standby; and (4) medium contingent liabilities risk from external guarantees.

The stable outlook on TSHC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Tai'an HIDZ, over the next 12-18 months.

## Rating Drivers

- Important role in local infrastructure construction and resettlement housing development of Tai'an HIDZ
- High exposure to commercial activities especially in property development
- Good track record of receiving support from the local government and its parent company
- Relatively large short-term debt burden
- Funding channels highly concentrated on regional banks with limited liquidity standby
- Medium contingent liabilities risk from external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as increased strategic significance, reduced exposure to risky commercial activities or improved debt management and financing ability.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, deteriorated debt management or weakened financing ability.

## Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	18.0	19.4	24.8
Total Equity (RMB billion)	5.7	6.4	7.6
Total Revenue (RMB billion)	0.8	1.6	2.2
Total Debt/Total Capital (%)	61.4	60.3	46.2

All ratios and figures are calculated using CCXAP's adjustments.

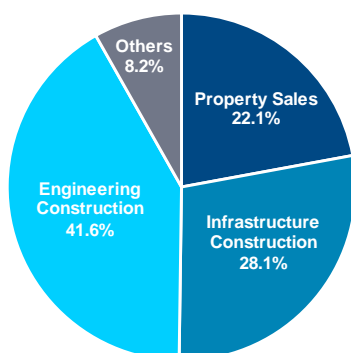
Source: Company data, CCXAP research

## Corporate Profile

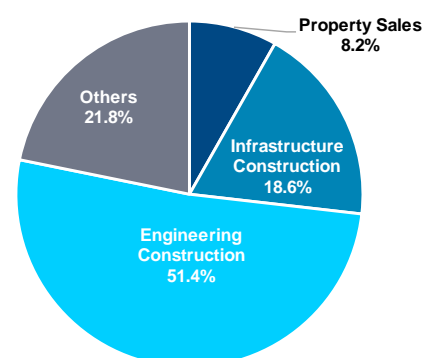
Established in 2008, TSHC is one of the major local infrastructure investment and financing companies ("LIIFCs") in Tai'an City, mainly responsible for the investment, construction, and operation of Tai'an HIDZ. It is mainly responsible for the infrastructure construction, resettlement housing development, and heat supply in Tai'an HIDZ. Meanwhile, the Company is engaging in commercial activities including the construction and operation of industrial parks, property sales, financial investment, leasing, as well as trading. In March 2023, the management committee of Tai'an HIDZ transferred 100% of the equity it held in TSHC to Tai'an High Tech Construction Group Co., Ltd. ("THTC"). Meanwhile, the registered capital of TSHC was increased to around RMB1.6 billion from RMB1.3 billion. As of 31 December 2023, the State-owned Assets Supervision and Administration Commission of Tai'an Municipal People's Government ("Tai'an SASAC") was the ultimate controller of the Company and held all its shares through THTC.

**Exhibit 1. Shareholding chart as of 31 December 2023**

Source: Company data, CCXAP research

**Exhibit 2. Revenue structure in 2023**

Source: Company data, CCXAP research

**Exhibit 3. Gross profit structure in 2023****Rating Considerations****Government's Capacity to Provide Support**

We believe that the local government has very strong capacity to provide support given Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength. However, its fiscal metrics are moderate.

Shandong Province has been the third largest province in terms of gross regional production ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding and marine technology, chemical, automotive, and agri-food industry. Tai'an City is a prefecture-level city located in the middle of Shandong Province. It serves as an important transportation hub of Shandong Province which connects to a number of national economic and industrial development zones. Meanwhile, as a national historical and cultural city in Shandong Province, Tai'an City was designated by the State Council as one of China's Top Tourism

Cities. After years of development, Tai'an City has established 10 pillar industries, including new generation information technology, high-end equipment and intelligent manufacturing, new material, medical and health care, clean energy and eco-friendly industry, cultural tourism, modern high-efficient agriculture, high-end chemistry, modern logistics, and textile garment.

Tai'an City's economic strength continuously increased over the past three years. Its GRP increased to RMB332.4 billion in 2023, with a year-on-year ("YoY") increase of 6.4%. The general budgetary revenue of Tai'an Municipal Government increased to RMB23.9 billion in 2023, with tax revenue of RMB17.9 billion. However, the government fund revenue sharply decreased to RMB10.2 billion in 2023 from RMB18.5 billion in 2022 due to the reduction in land transfer revenue. Moreover, the fiscal balance of Tai'an Municipal Government remained moderate. The average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 52% and the average fiscal stability ratio (tax revenue/general budgetary revenue) was 73.5% over the past three years. As of end-2023, its government debt balance amounted to RMB96.0 billion, accounting for 28.9% of GRP.

#### Exhibit 4. Key economic and fiscal indicators of Tai'an City

	2021FY	2022FY	2023FY
GRP (RMB billion)	299.7	319.8	332.4
GRP Growth (%)	6.1	4.3	6.4
General Budgetary Revenue (RMB billion)	23.1	22.3	23.9
General Budgetary Expenditure (RMB billion)	42.8	44.2	46.3
Local Government Debt (RMB billion)	72.3	83.2	96.0

Source: Tai'an Municipal Government, CCXAP research

Tai'an HIDZ was established in 1994 and was approved as a national-level Hi-tech Industrial Development Zone in 2012. It has formed several pillar industries including high-end equipment manufacturing, new materials, biopharmaceuticals, new energy, as well as new generation information technology industry. Tai'an HIDZ is also the National Torch Plan Tai'an Transmission and Transformation Equipment Characteristic Industrial Base, and the National Mining Equipment High Tech Industrialization Base. There are several leading enterprises settled in Tai'an HIDZ, such as Taikai Group Co., Ltd., LIBO Heavy Industries Science & Technology Co., Ltd., Tai'an Hualu Forging Machine Tool Co., Ltd., and Tai'an Aerospace Special Vehicle Co., Ltd. Tai'an HIDZ plays an important role in industrial development and the transformation of growth drivers of Tai'an City. From 2021 to 2023, the GRP of Tai'an HIDZ was RMB21.9 billion, RMB23.5 billion and RMB20.9 billion, respectively. Its general budget revenue increased to RMB2.0 billion in 2023 from RMB1.7 billion in 2021. Meanwhile, the fiscal balance ratio of Tai'an HIDZ increased to 110.7% from 67.2%.

#### Government's Willingness to Provide Support

##### Important role in local infrastructure construction and resettlement housing development of Tai'an HIDZ

TSHC's parent company THTC is an important state-owned asset management entity in Tai'an City and mainly responsible for the investment, construction, and operation of Tai'an HIDZ. As the most important subsidiary of THTC, TSHC is mainly engaged in infrastructure construction, resettlement housing development and heat supply in Tai'an HIDZ. The Company has a clear functional positioning and strong regional specialization in public-oriented business.

TSHC is commissioned to carry out various infrastructure construction projects such as roads, pipelines, and resettlement housing. The Company signs entrusted construction contracts with the local government or other

state-owned enterprises, and the entrusting parties will pay the total cost incurred plus a certain markup after examination of the project. As of 31 December 2023, the Company had 4 resettlement housing projects under construction, with a total investment amount of RMB2.9 billion and an uninvested amount of RMB1.0 billion. However, the payment from the local government for construction projects is relatively prolonged, which may increase TSHC's capital expenditure pressure.

The Company is responsible for heat supply in Tai'an HIDZ with heating area of around 4 million square meters. TSHC provides winter heating supply services for 28 residential communities and steam delivery services for enterprises settled in Tai'an HIDZ. Heat supply service is essential to residents' livelihood and the operation of enterprises. As of 31 December 2023, TSHC had secondary heating pipeline network of around 79 kilometers and 26 heat exchange stations.

### **High exposure to commercial activities especially in property development**

TSHC is also engaged in diversified commercial activities, such as industrial park construction and operation, property sales, financial investment, leasing, as well as trading. We consider the Company's exposure to commercial businesses high, especially exposure to property development during the downturn of China's real estate market.

TSHC conducts property sales business through self-development model in Tai'an HIDZ. As of 31 December 2023, most of the completed commercial housing were sold. As of 31 December 2023, there were 2 projects under construction with a total investment of RMB1.5 billion and an outstanding investment of RMB742 million. The Company also had 2 projects under planning, with a total investment of RMB1.4 billion. However, increasing investment in property development may bring more operating uncertainties and financial risks to the Company as the property sales are easily affected by the market conditions especially during the downturn of the real estate market. Moreover, the relatively large amount of uninvested investment of projects poses large capital expenditure pressure to the Company, which will be largely relied on external financing.

TSHC is engaged in industrial parks development and operation to promote the development of local high-tech industries. The Company undertakes the responsibilities of financing, construction, operation of industrial parks and is expected to achieve fund balance through leasing income. As of 31 December 2023, the Company operated and managed 5 industrial parks. The main tenants are high-tech enterprises settled in Tai'an HIDZ. As of 31 December 2023, the Company had repurchased part of shares of two industrial parks with RMB362 million. Meanwhile, the remaining repurchase amount for these two industrial parks was expected to be RMB338 million. However, the Company's investments require long holding periods, which may expose the Company to larger investment and execution risk.

TSHC participates in financial investment through equity investment, fund investment, and debt investment to promote local industrial development under the guidance of local government. Its investment portfolio includes different industries, such as finance, new material, new energy, supply chain, logistic, and high-end manufacturing. The largest single investment was Bank of Tai'an Co., Ltd. ("Bank of Tai'an"). Entrusted by the local government, TSHC directly held 20% shares of Bank of Tai'an with a total book value of RMB2.1 billion as of 31 December 2023. The main funding sources of this investment consist of external loans and capital injection from local government. However, the Bank of Tai'an has not distributed dividends to the Company. The overall return of its investment portfolio is relatively low. Moreover, the majority of underlying assets was equity investment in local private-owned enterprises, which have higher operation risks during a market downturn. The financial investment business has significant volatility due to the performance of invested companies and change of economic situation.

### **Good track record of receiving support from the local government and its parent company**

TSHC has a good track record of receiving support from the local government and its parent company, THTC, including equity transfer, capital injection, financial subsidies, and debt waive. In 2021, the local government injected capital of RMB742.0 million into TSHC and its subsidiaries, which enhanced the Company's capital strength. In 2022, THTC also provides debt waive to TSHC and its subsidiaries under the guidance of the local government, with a total amount of RMB581.0 million, which decreased its debt burden. From 2021 to 2023, the local government provided fiscal and operating subsidies of around RMB864.0 million to the Company. Meanwhile, the paid-in capital of TSHC increased to RMB1.6 billion from RMB1.3 billion. We believe that TSHC will receive ongoing support from the local government and its parent company THTC, given its important position in local economic and industrial development.

### **Relatively large short-term debt burden**

The Company demonstrated relatively high debt burden over the past three years due to the investment in infrastructure construction projects and self-operated projects. TSHC's total debt increased to RMB9.8 billion as of end-2022 from RMB9.0 billion as of end-2021. Due to the transferring out of the equity of the Company's two subsidiaries in 2023, TSHC's total debt decreased to RMB6.5 billion as of end-2023. The part of assets of the two subsidiaries was transferred to the Company's other subsidiaries. As a paid transfer, TSHC increased other payables to the two subsidiaries by around RMB6.4 billion. According to the reply by the Company, TSHC had no clear repayment plan yet. As of 31 December 2023, TSHC's total capitalization ratio, as measured by total debt to total capital, was reduced from 61.4% as of end-2021 to 46.2%. However, the Company still bears relatively large short-term debt burden. As of 31 December 2023, the short-term debt was RMB2.1 billion, accounting for 32.4% of the total debt. TSHC's cash to short-term debt ratio was relatively low at 0.04x, which could not fully cover the short-term debt. Considering the large uninvested amounts of construction projects, we expect the Company would continue to rely on external financing such as bank loans and its debt burden would increase over the next 12-18 months.

In addition, TSHC's asset liquidity was relatively weak. As of 31 December 2023, TSHC's other receivables, inventories, and account receivables accounted for around 73% of the total assets. Majority of these assets were considered low liquidity. Moreover, the Company provides money-lending to private-owned enterprises in Tai'an HIDZ, with outstanding amount of RMB207 million as of 31 December 2023, accounting for 3% of net assets. All of the lending receivables to private-owned enterprises are overdue, and the Company is filing lawsuits against borrowers to recovery. Considering that majority of the private-owned enterprises is in financial distress and has tight liquidity, we estimate the Company bears large recovery risk.

### **High concentration on regional banks with limit liquidity standby**

TSHC has access to different financing channels such as bank loans, bond issuance and non-standard financing products. Bank loans and bond issuance are the major financing channels of TSHC. However, the Company's bank loans have high concentration on regional banks, especially in Bank of Tai'an. As of the major shareholder of Bank of Tai'an, the bank facilities from Bank of Tai'an accounted for more than half of total bank facilities. The loans from regional banks generally have higher financing costs, which would increase the Company's financial burden. Moreover, the Company's liquidity standby is limited, which would affect its financial flexibility. As of 31 December 2023, TSHC's parent company THTC has total bank facilities of RMB6.4 billion and available bank facilities of RMB1.3 billion, which may provide certain support to the Company. To enlarge its funding channels, the Company has entered debt capital market. From 2020 to 2023, the Company had issued 6 tranches of onshore bonds with total raising amount of RMB2.0 billion and coupon rates range

from 5% to 7%. In addition, TSHC has a relatively large exposure to non-standard financing products, accounting for 30%-35% of total debt. The main products of non-standard financing are trusts, which are used for subscription of shares of Bank of Tai'an with interest rate of 3.55%.

### **Medium risk of contingent liabilities from external guarantees**

The Company bears medium exposure to contingent risk given its relatively large number of external guarantees. As of 31 December 2023, TSHC's outstanding amount of external guarantees was RMB1.5 billion, accounting for 20% of its net assets. The majority of external guarantees was provided to local state-owned enterprises. At the same time, the Company also provided external guarantees to private-owned enterprises with total amount of RMB197 million. TSHC holds part of shares of these private-owned enterprises.

However, the Company provided external guarantees to other private-owned enterprises which incurred compensations in the past. As of 31 December 2023, the accumulative amount of compensation to the private-owned enterprises was RMB810 million and the amount of receivable compensation was RMB793 million. Some of guarantees has counter-guarantees by individuals, which demonstrates weak effectiveness of the protection. Part of these private-owned was listed as judgmental debtors and running into business difficulties. TSHC plans to file lawsuits against this guarantees to collect compensations.

### **ESG Considerations**

TSHC faces environmental risks because it has undertaken major infrastructure construction and resettlement housing projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it implements public policy initiatives by building public infrastructure in Tai'an HIDZ. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

TSHC's governance considerations are also material as the Company is subject to oversight by the local government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).



## Appendix

### Exhibit 5. Peer comparison

	Tai'an Taishan Holding Co., Ltd.	Tai'an Tianze Investment Operation Group Co., Ltd.
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>
Shareholder	Tai'an High Tech Construction Group Co., Ltd. (100%)	Tai'an Taishan Investment Co., Ltd (100%)
Positioning	Important entity in local infrastructure construction and resettlement housing development in Tai'an HIDZ	Important entity in investment, construction, and operation of Wenhe Scenic Spot in Yuliai Mountain
Total Asset (RMB billion)	19.4	24.4
Total Equity (RMB billion)	6.4	10.0
Total Revenue (RMB billion)	1.6	0.7

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2022.

Source: Company data, CCXAP research



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